

MINUTES OF THE CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

February 16, 2000

The Capital Projects and Bond Oversight Committee met on Wednesday, February 16, 2000 at 9:00 A.M., in Room 131 of the Capitol Annex. Representative Jodie Haydon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jodie Haydon, Chairman; Senator Bob Leeper, Vice Chairman; Senator Bob Jackson; and Representatives Robert Damron and Paul Marcotte.

Guests testifying before the Committee: Finance and Administration Cabinet Secretary John McCarty; Bill Hintze, Governor's Office for Policy and Management; Commissioner Armond Russ, Department for Facilities Management; Larry Owsley, University of Louisville; Ken Clevidence and Dall Clark, University of Kentucky; and Tom Howard, Office of Financial Management.

LRC Staff: Mary Lynn Collins, Pat Ingram, Jack Affeldt, Lola Williamson Lyle, Eric Evans, and Shawn Bowen.

Representative Marcotte made a motion to approve the minutes of the January 19, 2000 meeting as submitted. The motion was seconded by Senator Jackson and passed by voice vote.

Chairman Haydon reviewed one correspondence item in members' folders, the Kentucky Lottery Corporation's monthly financial status report for December 1999. He also welcomed Dr. Michael McCall, President of the Kentucky Community and Technical College System (KCTCS), to the meeting, and said he looked forward to working with him in the future.

Chairman Haydon said the first item of new business was a presentation by Finance Secretary John McCarty. Chairman Haydon explained that Secretary McCarty was asked to discuss the various construction methods that might be utilized for projects recommended in the Executive Branch Budget Bill and noted the Committee's oversight responsibility for these projects.

Secretary McCarty first introduced Mr. Bill Hintze, Deputy State Budget Director, Governor's Office for Policy and Management, and Commissioner Armond Russ, Department for Facilities Management. Secretary McCarty discussed a 1997 study by the Fantus Corporation indicating that the state needs to reduce the amount of space it leases and said there are varying ways to address those needs. He discussed the traditional construction approach, which he referred to as design-bid-build. This involves issuing a Request for Proposal (RFP) to design the facility, and once the design is complete, the Cabinet publicly advertises for bids to build the facility. Another method of construction, which is more of a fast track approach, is design-build, which basically combines design and construction of the facility into one procurement. He noted the federal government is using this approach for various projects.

Secretary McCarty said language in the Governor's 2000-02 budget recommendation recognizes the fact that there is an ongoing issue with space for state governmental operations, and given the tightness of the funding availability, the state may decide, with the concurrence of the General Assembly, to use an alternative method for financing and constructing a new facility. He then discussed the "built-to-suit" method, which is a design build process with a financing option, and said this construction method is being utilized by other states. Typically, the built-to-suit option involves one procurement for design and construction financed through lease payments. However, Secretary McCarty said he would consider a variation of built-to-suit whereby the state would issue an RFP for development of design through what is referred to as "Phase C" working drawings. The state might then bid the construction and financing through the built-to-suit lease process. He noted the state had not previously used this approach.

Secretary McCarty said at some point, hopefully, the state, when seeking to lease space for core operations, would use lease purchase options and noted that today the state is leasing a substantial amount of space and at the end of the lease term, the state has no ownership benefits.

Chairman Haydon asked how much square footage the state leases. Mr. Jim Abbott, Director, Division of Real Properties, Department for Facilities Management, said in Franklin County, the state now leases approximately 1.5 million square feet of office space.

In response to a question from Senator Leeper, Secretary McCarty said neither the design-build nor built-to-suit construction would require any change of statute or any change to the Finance Cabinet's regulations. The Cabinet has adequate statutory authority for design-build and there are very specific statutes, enacted in the early 1990s, relating to the built-to-suit option.

Senator Leeper asked if such methods will take the Finance Cabinet out of the oversight process. Secretary McCarty said that would not be the case; under current statutes and regulations, the Cabinet will still have to report to the Committee.

In response to a question from Representative Marcotte, Secretary McCarty said the consultant for the State Capitol Master Plan project, Norman Berry and Associates, has been authorized to do additional programming for the project, but he had no new information.

Chairman Haydon said next on the agenda was a project report submitted by the Finance and Administration Cabinet. Mr. Hintze first reported two allocations from the Emergency Repair, Maintenance and Replacement Account. The first allocation was \$1.4 million to repair water leaks in the Henderson Community College Fine Arts Building. Mr. Hintze said the contractor for this project, J. L. Poole, is bankrupt, but the Cabinet is pursuing legal action and insurance for recourse. He said the Emergency Account will be reimbursed if any funds are recovered.

Senator Jackson commented that the Cabinet should continue to pursue this matter from every legal angle possible.

Mr. Hintze reported a second allocation from the Emergency Account, \$325,000 for emergency repairs to the Kentucky Dam Village State Park Marina. Severe storm damage and high winds on the lake have damaged the piers and have caused relatively new anchor cables to break loose. As a result, the Cabinet plans to replace every pier with stainless steel anchor cables to prevent this from reoccurring.

Mr. Hintze next reported on an unbudgeted project at Kentucky State University. The University plans to construct an aquaculture classroom and lab facility for the purpose of agricultural diversification and economic development. The project scope of \$650,000 will be totally funded by the federal Department of Agriculture.

Mr. Hintze then discussed a \$9,375,000 federally funded scope increase for the Somerset Community College and Somerset Technical College-Academic Support/Technical Education Complex. The scope increase will be covered with \$8,550,000 from a Small Business Administration pass-through grant and \$825,000 in private donations. The revised project scope would be \$19,633,000.

Next, Mr. Hintze reported a transmitter replacement project for Kentucky Educational Television (KET). He said KET has secured a \$701,900 National Telecommunications and Information Administration grant to replace two transmitters in Morehead and Somerset. The money will be matched with funds appropriated for transmitters by the 1998 General Assembly; no additional appropriation is required.

Lastly, Mr. Hintze reported a change in scope for the KCTCS South Central Regional Postsecondary Education Center. This project was funded by the 1998 General Assembly at a scope of \$6,537,000 (Bond Funds). Later, the Committee reviewed and approved increasing the scope of the project by a total of \$1,527,399, using funds made available by the Clinton County Empowerment Zone Board. At that time, the Committee was told the new facility would be built next to the Clinton County High School. Mr. Hintze told the Committee KCTCS has made a decision to move the project's location to another site in Clinton County, and Clinton County Empowerment Zone Community Incorporated has asked for the return of funds it contributed to the project. As a result, the project scope has reverted to its original scope of \$6,537,000. He also noted the Governor has included an additional \$2 million for the project in his recommended 2000-02 budget.

Senator Jackson made a motion to approve the three projects reported by Mr. Hintze which require Committee action: the KSU Aquaculture Classroom and Lab Facility project, the scope increase for the Somerset Community College and Technical College-Academic Support/Technical Education Complex, and the KET Transmitter Replacement project. The motion was seconded by Representative Marcotte and passed by voice vote.

Chairman Haydon reported that the Department for Facilities Management submitted a lease modification report for the Committee's review. This Department reports the Division of Child Support (Cabinet for Families and Children) will move into leased space to be vacated by the Public Service Commission as they move to a newly constructed state-owned building. He said the lease modification required no action by the Committee.

Chairman Haydon introduced Mr. Larry Owsley, Vice President for Finance and Administration, University of Louisville (U of L). Mr. Owsley reported that U of L is requesting approval for construction of the next phase of Cardinal Park. The project scope is \$2,813,000 and is privately funded.

In response to a question from Senator Jackson, Mr. Owsley said the private funds are certified and have been committed for the project.

Senator Jackson made a motion to approve the U of L Cardinal Park project. The motion was seconded by Representative Marcotte and passed by voice vote.

Mr. Ken Clevidence, Director, University of Kentucky (UK) Capital Construction Division, and Mr. Dall Clark, Associate Director, UK Capital Construction Division, requested approval for two scope increases for UK projects. In both cases, the scope increases will be used to accept the low construction bid. Mr. Clevidence first reported a

\$1,175,000 agency funded scope increase for the Mechanical Engineering Building project.

Representative Damron made a motion to approve the scope increase for the UK Mechanical Engineering Building project. The motion was seconded by Senator Leeper and passed by voice vote. The revised project scope is \$24,775,000.

Mr. Clevidence then reported a \$400,000 privately funded scope increase for the Wildcat Lodge Renovation project.

Representative Damron made a motion to approve the scope increase for the Wildcat Lodge Renovation project. The motion was seconded by Senator Leeper and passed by voice vote. The revised project scope is \$1,400,000.

Mr. Tom Howard, Deputy Director of the Office of Financial Management, submitted two items for the Committee's review and approval: one new bond issue, the Kentucky Economic Development Finance Authority (KEDFA) Revenue Bonds, Series 2000 for Catholic Health Initiatives (\$60,000,000); and four school bond issues with School Facilities Construction Commission (SFCC) participation (Leslie County, Nelson County, Robertson County, and Simpson County).

Senator Leeper made a motion to approve the KEDFA bond issue and the four SFCC bond issues. The motion was seconded by Representative Marcotte and passed by voice vote. Representative Damron abstained from the SFCC bond issues vote, citing a potential conflict of interest.

Chairman Haydon said there were two locally funded school bond issues submitted to the Committee for review this month: Breathitt County and Fayette County. He said all disclosure information has been filed and no further action on these bond issues was required.

Chairman Haydon said also included in members' folders were four information items: summary of capital-related provisions in the Judicial Branch 2000-02 Recommended Budget; status of proposed legislation relating to capital construction; Capital Projects Update; and Department of Parks, Capital Construction Report No. 20.

Chairman Haydon said the Committee's next meeting is scheduled for Wednesday, March 15, at 9:00 a.m. in Room 111 of the Annex.

With there being no further business, Senator Jackson made a motion to adjourn the meeting. The motion was seconded by Senator Leeper. The meeting adjourned at 9:40 a.m.

